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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

November 29, 2017

Rick Lowe, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, MI 48913

Dear Mr. Lowe:

In accordance with the State of Michigan, Financial Management Guide, Part VII, the following is our corrective action plan to address recommendations contained within the Office of the Auditor General's Performance Audit of the Motor Fuel Tax Systems, Report Number 271-0525-16, from October 1, 2013 – April 30, 2016.

1. Audit recommendations the agency complied with:

Finding 4 - More secure storage of confidential information needed:

We recommend that the Division securely store confidential information in accordance with Treasury security policies.

Agency Plan:
Treasury has complied with this finding as of August 2016 by working with the Office of Privacy and Security to ensure all PII information is properly labeled and secured at the end of each work day.

Finding 5 - Funding needed for motor fuel tax enforcement services:

We recommend that Treasury work with the Legislature to assess the cost/benefit of establishing funding for motor fuel tax enforcement and related services.

Agency Plan:
Treasury has taken steps to address this finding as of May 2017. Treasury has communicated with the departmental legislative and budget staff to pursue funding.

Finding 6 - Effective security administration over motor fuel tax systems needed:

We recommend that the Division establish effective security administration over the motor fuel tax systems to ensure that tax data is protected from unauthorized access, modification, or disclosure.

Agency Plan:
Treasury has addressed this issue as of June 2016 and has taken the appropriate steps to address this finding. All user roles have been reviewed and documented with additional detailed descriptions for all 5 systems. Currently, procedures for granting and removing user access have been reviewed with the Office of Privacy and Security to ensure the Department's policies are being met. The User Access Manager will perform an annual review of each system and verify that all changes are documented.

2. Audit recommendations the agency agrees with and will comply:

Finding 1 - Improved contract management needed:

We recommend that Treasury and DTMB make needed improvements to more effectively manage the VISTA contract. We also recommend that Treasury assign contract management responsibilities to persons with the knowledge and authority to make contract decisions.

Agency Plan:
DTMB has worked with Treasury to arrange for contract management training, which was on September 14, 2017, for DTMB Agency Services staff that oversee contracts. Treasury Purchasing also held contract management training for Motor Fuel staff on September 22, 2017. Training included contract management roles and responsibilities; contract monitoring and compliance inspection processes; and the Michigan Procurement Manual to help ensure that the correct staff are assigned to contract management roles and that staff understand their roles and responsibilities. DTMB will also add the review of annual contractor compliance reports to its partnership agreement and/or memorandum of understanding (MOU) with Treasury to formalize the review of these documents. A request has been submitted to DTMB Procurement to change the Program Manager/CCI to the administrator of the Special Taxes Division, update the contract with active links to IT policies, standards, and procedures, and update the contract with required documents by November 2017. DTMB and Treasury will fully comply with the recommendation by December 31, 2017.

Finding 2 - Enhanced review of SOC reports needed:

We recommend that Treasury and DTMB require the VISTA contractor to conduct and provide SOC reports. We also recommend that Treasury and DTMB implement a process for reviewing the SOC reports upon receipt.

Agency Plan:
A policy did not exist at the time of the contract execution requiring SOC 1 Type 2 and/or SOC 2 type 2 reports be provided by the vendors annually. The contract with the

current hosting vendor will terminate in July 2018. The Agency has selected a new vendor and the replacement system will be hosted by DTMB. A SOC report will no longer be required by the vendor for the new system because it will no longer be hosted off sight.

Finding 3 - Motor Fuel tax data should be encrypted:

We recommend that DTMB require the VISTA contractor to encrypt motor fuel tax data in-transit and at-rest, in accordance with DTMB's data encryption standard, to minimize the risk of compromised tax information.

Agency Plan:
Treasury is currently working with a new vendor to replace the current Motor Fuel system. The new system will be hosted by DTMB, who will work with the new vendor to ensure DTMB policies are followed so that all data is encrypted, in transit and at rest. Full implementation of the system is scheduled for July 2018.

3. Audit recommendations the agency disagrees with: None

Should you have any questions regarding the corrective action plan, please contact Scott Lonberger at 517-636-4280 or at LonbergerS@michigan.gov.

Sincerely,

Signature Redacted

Glenn R. White, Deputy State Treasurer
Tax Administration

cc: Dick Posthumus, Executive Office
Wendy Wisniewski, Executive Office
Doug Ringler, Office of the Auditor General
Rob VerHeulen, House Appropriations Sub-committee
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